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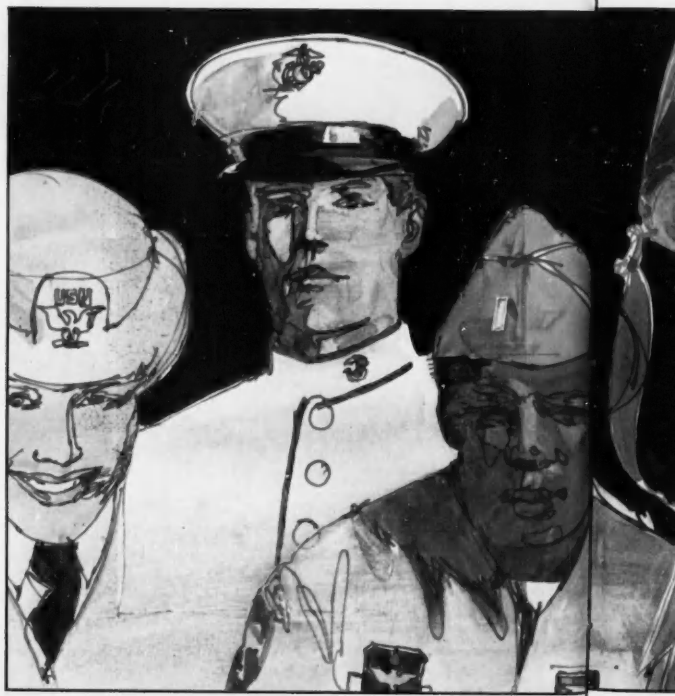
COMMAND POLICY

DoD's NEW PROPOSED MILITARY RETIREMENT PLAN

DoD's NEW PROPOSED **MILITARY RETIREMENT PLAN** FOCUSES ON EQUITY & FORCE MANAGEMENT



INTRODUCTION

President Carter will shortly send to Congress a proposal for a major reform of the military pay system. He believes the proposed system will support a strong military force at significantly lower cost than today. The biggest change affecting military personnel concerns their retirement system.

For those currently serving, a choice of retirement systems—current or proposed—is offered. So any changes will be voluntary—not imposed. And, for the American taxpayer, the new system promises long-term savings while providing retirement benefits similar to those found in business and industry.

The new proposal has its roots in the findings and recommendations of the President's Commission on Military Compensation (PCMC). The Commission's major recommendation calls for replacing the current 20 year retirement system with one encouraging both shorter and longer careers. The other principal recommendations call for:

- Continuation of the present pay and allowances system (as opposed to a salary system);
- Pay raises that could vary by grade and longevity step as well as other factors;
- A greater use of special pays to solve specific skill shortages.

During the past year, the Department of Defense reviewed the Commission's recommendations. Although differing on certain points, it agreed with the thrust of the Commission's recommendations. The Commission's call for restructuring the retirement system at costs below present levels seems reasonable, as does the Commission's distinction between old-age and pre-old age retirement benefits.

This report provides information about the proposed changes to the current military retirement system.

ADMINISTRATION'S PROPOSAL

General Structure. Today's retirement system provides a single annuity, payable upon completion of 20 years of service, from time of separation until death. By contrast, the Administration plan provides two levels of annuities for members who serve full careers. Members who serve at least 20 years would be eligible for immediate annuities upon retirement, as at present. Their annuities would vary with length of service. Upon reaching age 60, they would become eligible for large payments.

Servicemembers who separate from military service with 10 but fewer than 20 years of service would not be eligible for immediate retired pay but would receive old-age annuities (beginning at age 60) dependent upon their service length. Moreover, all members who served 10 or more years—thus qualifying for old-age benefits—could withdraw cash amounts against these benefits. These withdrawals would be subtracted from the post-separation annuities paid later. For years of service 10 to 20, the member could choose between taking any remaining withdrawal benefits (up to 20 months basic pay for 15 years of service) or receiving old-age benefits.

Service people who served fewer than 10 years would not be eligible for any retirement or post-service benefits.

Pre-Old Age Benefits. A member's retirement pay would be calculated in terms of the average high-two years of basic pay. For each of his or her first 10 years of service, a member would be entitled to an annuity of 1.75 percent; for each of the next 10 years (11-20), an annuity of 2.0 percent; for all years of service beyond 20, an annuity of 2.50 percent. The maximum annuity would be 76.25 percent of high-two basic pay.

A member retiring after 20 years would receive an immediate annuity of 37.5 percent of high-two basic pay. Someone retiring after 25 years would receive an immediate annuity of 50 percent. A retiree with a 30-year career would earn an immediate annuity of 62.5 percent.

Old-Age Benefits. Old-age annuities would begin for all eligible members at age 60. Annuities would be calculated as percentages of high-two basic pay. Each of the first five years of service would entitle a member to an annuity of 2.0 percent; years between five and 10 would earn 2.25 percent, and all years of service beyond 10 would provide annuities of 2.75 percent. The maximum old-age annuity would be 76.25 percent.

This way a member separating after 10 years could eventually receive an old-age annuity of 21.25 percent of high-two basic pay; 20 years of service would earn an old-age annuity of 48.75 percent; and a 30-year career would give an old-age annuity of 76.25 percent.

Social Security Offset. The present retirement system does not offset military annuities when the retiree draws Social Security payments. Under the proposed system, there would be an offset of 1¼ percent per year of service. This would be computed entirely on the basis of military earnings, projected over a full military career. Thus, members with identical military careers would receive the same offset, even if their civilian careers (and actual social security benefits) were different.

Early Withdrawal. All who complete 10 years of service would have the option of withdrawing cash benefits immediately, instead of waiting until retirement or old-age. Withdrawal levels would be linked to the member's basic pay at the time of withdrawal. The maximum amount of such early withdrawals would be one month's basic pay for each year of service for the first 10 years—and an additional two month's basic pay for each of years 11-15. So, a member could withdraw 10 months basic pay upon completion of 10 years' service, a total of 12 months pay after 11 years, and so on, up to a maximum of 20 months basic pay after 15 years' service.

Service persons who made early withdrawals, and then separated prior to completing 20 years, would not be eligible for old-age annuities unless these withdrawals were repaid within five years.

Members who made early withdrawals and later reached the 20-year point would have pre-old-age annuities reduced by their early withdrawals. They would also have the option of repaying their withdrawals and thus restoring their annuities.

Severence Pay. Today's officers receive severance pay when involuntarily separated with between five and 20 years service. Currently enlisted members receive no severance pay. The new plan provides severance pay for both officers and enlisted; 5 percent of annual basic pay for each year of service. Reduced payments would be made for unsatisfactory performance separations.

Transition. The Administration's proposal for transition to the new retirement system is an open-choice policy. Each member can calculate which plan—the current or proposed—is best. Those who choose the new system incur a four year service obligation. This prevents windfall gains in early withdrawal payments for those who wish to leave immediately.

This transition plan has a number of advantages. It will be most acceptable to people now on active duty—

- those who plan to retire after 20 years may do so under the current rules;
- those who plan to serve 10 years but not 20 can choose the new system, and in return for an additional commitment of four years, receive early withdrawal or old-age benefits. Those who do not plan to serve 10 years may be indifferent. Thus, overall force morale should not suffer.

Pay Comparison Chart
($ FY 79)

E-4 at 5 YOS	Current System	Administration Proposal
Years to first benefit	$ 15	$ 5
Cash available now	0	0
Cash available in 5 years	0	7,212
Additional cash available in 10 years	0	8,562
Annuity available in 15 years	5,382	2,909
E-6 at 10 YOS		
Years to first benefit	$ 10	Now
Cash available now	0	$ 7,893
Additional cash available in 5 years	0	8,562
Annuity available in 10 years	5,382	2,909
E-6 at 15 YOS		
Years to first benefit	$ 5	Now
Cash available now	0	$17,124
Annuity available in 5 years	5,382	2,909
E-6 who retires 20 YOS		
Immediate benefit	$ 5,382	$ 2,909
Annuity at age 60	5,382	4,975
Annuities at age 65		
Military	5,382	3,769
Social Security	5,500	5,500
TOTAL	$10,882	$ 9,269
E-8 who retires 26 YOS		
Immediate benefit	$10,610	$ 6,233
Annuity at age 60	10,610	9,249
Annuities at age 65		
Military	10,610	7,684
Social Security	5,000	5,000
TOTAL	$15,610	$12,684

The open-choice policy will encourage the quickest transition, short of an arbitrary conversion and thus, generate the strongest support from today's members. This may be important for recruiting since much information about a military career is passed by word of mouth. The more careerists who come under the new system voluntarily, the more likely this information will be favorable. Moreover, a fast transition will allow DoD to learn early on how members will adjust their career plans in light of the new retirement system.

Accession requirements for enlisted personnel will be reduced during the 1980s owing to the fact that members who choose the new system must commit for additional service. Since all forecasts predict a tight recruiting market for the 1980s, an early transition offers DoD an opportunity to maintain its quality standards without reducing end strength.

Comparison With Other Retirement Systems. These features of the Administration's proposal are compared with the current system, the Retirement Modernization Act (RMA) of 1974, and the Presidential Commission For Military Compensation (PCMC) proposal in Table 1. All three proposed plans attempt to serve several purposes; provide adequate income in old age, insure an income supplement to assist transition to a civilian job, and give an attractive incentive to remain on active duty past initial obligation. Two of the plans—the Administration's proposal, and the RMA—provide immediate lifetime annuities after 20 years of service.

Although the RMA plan deals with old age and transition to civilian life, it does not provide a retention incentive for young servicemembers, as do the PCMC and Administration plans. And, a strong lock-in effect covering years 10 to 20 is still present in RMA, although some additional management flexibility is present through the severance pay provisions.

In several features, the Administration and PCMC proposals have more similarity with each other than with RMA. Both provide cash

Severance Pay Comparisons

Current System
- Enlisted None
- Officer $15,000

Proposed System
- Both Officer and Enlisted
- 5% of Basic Pay per YOS

Examples

Rank and Years of Service	Current	Proposed Severance	Proposed Withdrawal	Proposed Total
E-5 with 6 YOS	$ 0	$ 2,399	$ 0	$ 2,399
E-5 with 10 YOS	0	4,327	7,212	11,539
E-6 with 15 YOS	0	7,706	17,124	24,830
E-7 with 18 YOS	0	10,873	17,124	27,997
O-3 with 6 YOS	$15,000	$ 5,095	$ 0	$ 5,095
O-3 with 10 YOS	15,000	9,272	15,453	24,725
O-4 with 15 YOS	15,000	16,127	35,838	52,965
O-5 with 18 YOS	15,000	23,283	35,838	59,121

benefits and eligibility for old age benefits upon completion of 10 years service. Both use an average of high-two or high-three years of basic pay, rather than final or high-one basic pay. Although the benefit levels for old-age are almost identical, the social security offset under the PCMC plan would be much larger. Post-military earnings would contribute to the Social Security benefits and offset size.

ADVANTAGES FOR THE MEMBER

The Administration's retirement plan introduces a significant cut in benefits for those who would serve 20 years; life-time retirement benefits (undiscounted) would be reduced by 20-30 percent. To balance this, the Administration plan offers several advantages over the current system. First, more members will receive benefits. Second, the timing and level of benefits will be better suited to the members' needs when they receive them. This means that military members will have more options in planning their combined military/civilian careers. Finally, a major improvement is the addition of severance pay for enlisted members involuntarily separated after five years of service.

At present, only about 11 percent of enlisteds and 25 percent of officers ever qualify for retirement. The proposed plan will distribute the total benefits so that more career members experience an **increase** in military compensation than would suffer a decrease.* This is because more members separate between 10 and 20 years than stay for 20 years or more. Thus, the new plan pro-

COMPARISON OF TIRE
CURRENT, ADMISTRA
PCMC PROPO

	Current	Administration Proposal	RMA	PCMC
Eligibility for Annuities				
Pre-Old Age	20 YOS	20 YOS	20 YOS	(Trust Fund)
Old-Age	20 YOS	10 YOS	10 YOS	10 YOS
NOTES: Current retirement system has only a single annuity; PCMC proposal has no pre-old age annuity. It has a trust fund which can be drawn against after 10 YOS				
Annuities Begin				
Pre-Old Age	Retirement	Retirement	Retirement	(Trust Fund)
Old-Age, Retired	Retirement	Age 60	30 YOS anniversary	30 + YOS: Age 55 21-29 YOS: Age 60
Veteran	N/A	Age 60	Age 60	N/A
Computation of Annuities				
Pre-Old Age	2½% × BP × YOS	1-10 YOS: 1¾% × BP 11-20 YOS: 2% × BP 21-30 YOS: 2½% × BP	Old Age Annuity minus 15% × BP	(Trust Fund)
Old-Age	2½% × BP × YOS (max 75% × BP)	1-5 YOS: 2% × BP 6-10 YOS: 2¼% × BP 11-30 YOS: 2¾% × BP	20-24 YOS: 2½% × BP × YOS 25-30 YOS: 3% × BP × YOS	1-5 YOS: 2% × BP 6-10 YOS: 2¼% × BP 11-35 YOS: 2¾% × BP
Annuity Base (BP)	Final BP	High-2 BP	High-1 BP	High-3 BP
Veterans Residual Service Obligation	To 6th anniversary of Service	For those with 10-19 YOS, to 20th anniversary of Service	To 6th anniversary of Service	Not addressed

TABLE 1

*No one currently serving on active duty will sustain a decrease unless they choose the new plan and serve twenty or more years.

TIREMENT PLANS:
ISTRATION, RMA,
POSAL

	Current	Administration Proposal	RMA	PCMC
Social Security Offset	None	Reduce old-age annuity by 1¼% × YOS × SS benefit (SS benefit = average military earnings during military service years only)	Reduce old-age annuity by 50% of SS benefit attributable to military service. (SS benefit = military earnings during all working years)	Reduce old-age annuity by 1.25% × YOS × SS benefit. (SS benefit = benefit from all earnings)
NOTES: Administration, RMA and PCMC proposals each limit the maximum offset to 50% of constructive social security benefit. RMA limits offset to maximum of 50% of retired pay.				
Pre-20 YOS Cash Benefits	None	Early Withdrawal Benefits 1-10 YOS: 1 mo. BP per yr. 11-15 YOS: 2 mo. BP per yr.	Cash-out of vested annuity, but only for involuntary separation between 5 and 19 YOS 5% BP × YOS	Withdraw Trust Fund Contributions on Separation: 6-10 YOS: 20% × BP 11-20 YOS: 15% × BP 21-25 YOS: 15% × BP 26-30 YOS: 5% × BP Withdraw portion while still on active duty
NOTES: PCMC trust fund withdrawals are limited to 50% while on active duty. The Administration proposal allows for full withdrawals at any time after completion of 10 years.				
Severance Pay Eligibility	Involl. Officers only 5-19 YOS	Involl. 5-19 YOS	Involl. 5-19 YOS Vol. 10-19 YOS	Involl. 5 YOS or more
Computation	2 months BP × YOS, maximum $15,000.	Same as RMA.	5% of annual BP × YOS.	1-10 YOS: 25% × BP × YOS 11-30 YOS: 50% × BP × YOS Maximum: 1 Year BP
NOTES: Administration, RMA and PCMC proposals would pay severance pay to officers and enlisted.				

vides fairer distribution of benefits.

While the distribution of benefits is important, so are benefit levels. For members who want to serve between 10 and 20 years, the early withdrawal feature provides money for a smooth transition to civilian life. Members today do not receive this. At the same time, the early withdrawal of benefits (Table 2) will not encourage a mass exit from service at 10 years. This is because they grow steeply through the 15th years. Table 2 shows the amounts which could be withdrawn at the earliest possible date. Those who postpone all withdrawals until the 15th year and then make a lump sum withdrawal would receive about 10 percent more because the early withdrawal benefit would be paid at the highest base pay rates.

In sum, the new plan encourages members who do not wish to remain for 20 years to stay at least 10 years. Then it permits them to move into civilian life with little financial hardship.

For those who separate with 20 or 30 years service, the benefit levels are lower under the proposed plan than today. Table 3 presents this comparison for selected pay grades and years of service. Pre-old-age annuities are less (37 percent of average high-two versus 50 percent of final basic pay). Since each year of service is worth 2½ percent of basic pay, a member would have to serve about five more years under the new system in order to equal his current retired pay. These reduced benefits appear

Early Withdrawal Amounts

($ FY 79)

Years of Service Completed	Officers	Enlisted
10	$16,220	$ 7,210
11	3,240	1,440
12	3,430	1,495
13	3,430	1,495
14	3,580	1,520
15	3,580	1,710
TOTAL	$33,480	$14,870
15 (Lump Sum Withdrawal)	$35,840	$17,125

Note: Officer Grade: YOS 10-15 (0-4)
Enlisted Grades: YOS 10-14 (E-5);
YOS 15 (E-6)

TABLE 2

more in line with private employer benefits, and respond to criticisms that the current annuities are overly generous while most military retirees hold civilian jobs.

Old-age benefits under the new plan are roughly equal to today's levels. After Social Security benefits begin, military annuities are reduced as shown in the final column of Table 3. Again, this practice is common throughout the private sector. This should make the new plan more acceptable to the taxpayer.

Some specific examples (below) for enlisted members, using typical career patterns, illustrate the differences between the present and proposed systems. These show how the member's deferred income varies depending upon career length. In each case, maximum early withdrawals (with subsequent annuity reductions) are assumed.

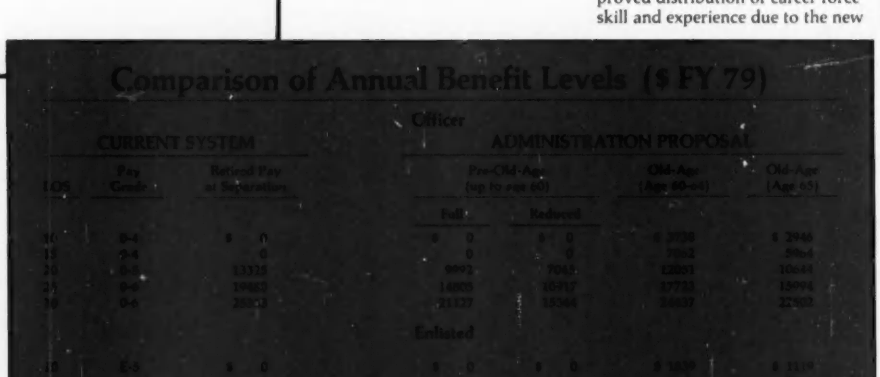
Severence pay for involuntary separation is a benefit which has long existed for civilian employees. The lack of this pay for enlisted members is not only inequitable, but also may inhibit personnel managers from separating individuals who are not productive. Page 5 shows severance pay under the proposed plan as compared to the current system.

The proposed levels of severance pay recognize that a member with over five years of service—who is denied the opportunity to complete 10 years—should receive benefits large enough to assist with the change to civilian employment. For involuntary separations occurring after 10 years, the member is eligible for early withdrawal benefits or old-age annuities. The proposed severance pays provide adequate transition funds either with or without early withdrawal benefits.

ADVANTAGES FOR DoD

For DoD, two major benefits will be realized from the Administration's proposal. The first is an improved distribution of career force skill and experience due to the new

Comparison of Annual Benefit Levels ($ FY 79)



Note: All annuity benefits are CPI protected. Pre-old-age annuities shown are to full (no early withdrawals) and reduced (maximum early withdrawals).

TABLE 3

incentive patterns. The second is increased flexibility for managing the force. Both benefits are important for assuring that DoD's resources are cost-effective.

Enlisted Retention. The proposed retirement plan will change continued service incentives. Estimates of reenlistment rates and force structure under the new plan have been made for each service using recent reenlistment data from the current retirement system. These estimates show that, in general, each service can obtain and manage its objective forces under the proposed plan.

The proposed changes also should have little effect on the services recruitment of new members. Given the small fraction of enlisted members (11 percent) who retire under today's system, the proposed changes should affect only a few prospective recruits.

Table 4 shows the estimated enlisted force distribution for the current system, and the Administration's proposal. With between five and 10 years' service, it is estimated that retention will increase under the proposed plan. For those who would otherwise leave before 20 years, the Administration's plan increases the incentive to complete 10 years. After reaching 10 years, however, the incentive to continue to 20 is reduced. The net effect would be to leave the enlisted first-term/career mix almost unchanged from today's 56/44 percent pattern, but to redistribute the career force across year groups. More first-termers would reenlist than today, resulting in 15,000 more careerists in Years of Service 5-10. But fewer would complete 20 years. This would decrease the population in YOS 16-20 by about 20,000 persons.

Longer careers (21-30 years) would be encouraged by the new plan. Since conditional entitlement to deferred compensation would occur at 10 years (versus 20 years for the current system) personnel who stay for 20 would be more likely to continue. As a result, past 20-year continuation rates would rise. The pool of careerists who serve between 21 and 25 years would increase by 5,000.

This change in career enlisted personnel distribution will, on balance, provide a force as experienced and youthful as today's. With more first-termers completing 10 years, the force will contain higher journeyman skills. Between 10 and 20 years, the force will be a mixture of experience—primarily technical and supervisory. Most individuals who are not promoted for technical skill or managerial ability would be lost during this period. (Under today's system, a large fraction of these people continue for 20 years.)

After 20 years, the promotion system should retain the better members, and provide a cadre of senior level experience. There also is no reason to believe the most able members would be less inclined to continue under the Administration's proposal than now. Meanwhile, the promotion and appraisal system would continue to provide senior members signals as to their value, and rewards for remaining on active duty.

Officer Retention. Officer retention patterns will be shifted in ways

Comparison of Enlisted Force: Current versus Proposal

	Enlisted Force Size (000s) by YOS					
	1-4	5-10	11-15	16-20	21-25	26-30
Current Steady State	1,000	395	185	160	40	10
Administration Proposal	1,000	410	185	140	45	10

*For an enlisted force of 1.790 million.

TABLE 4

Change in Annual Accessions, 1981 to 1995: Current System Versus Administration Proposal

	Officers		Enlisted (NPS)	
Year	(000s)	% Change	(000s)	% Change
1981	−7.4	−28.8	−50	−12.5
1982	−7.4	−28.0	−45	−11.5
1983	−6.9	−25.6	−25	− 6.3
1984	−5.8	−20.4	−45	−11.8
1985	− .4	−1.4	− 5	− 1.7
1986	−4.4	−17.9	−20	− 6.1
1987	−4.3	−19.4	−15	− 3.6
1988	−2.8	−10.2	−10	− 1.9
1989	−2.9	−10.5	0	0
1990	−4.3	−15.3	− 5	− .6
1991	−2.8	− 9.9	−10	− 2.8
1992	−4.7	−16.3	−10	− 3.0
1993	−4.5	−16.0	− 5	− 2.0
1994	−3.7	−13.4	− 5	− 2.0
1995	−4.0	−10.0	− 5	− 2.0

*For officer strength = 275,000; enlisted = 1,790,000.

TABLE 5

similar to those in the enlisted force. It is likely that more officers will opt for a 10 to 20 year career, with fewer staying 20 years. After 20, promotion opportunity would usually determine whether an officer remains in the service or leaves.

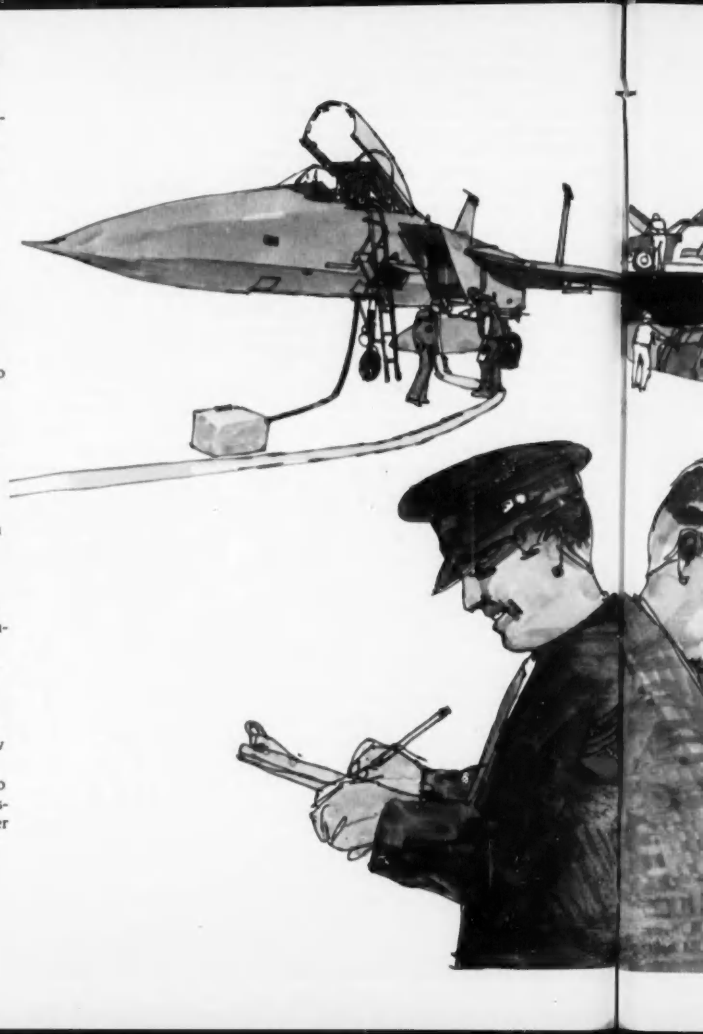
The Administration's proposal is consistent with the proposed Defense Officer Personnel Management Act (DOPMA). However, some officers could choose to leave the service after completing 10 years; thus, the DOPMA loss pattern would change somewhat from today's system. In general, however, there is a great deal of flexibility in the promotion patterns supporting DOPMA. Therefore, the Administration's proposal should not pose problems for managing the officer force.

Accession Requirements. The estimated changes in accession requirements resulting from the Administration plan are shown in Table 5. Enlisted NPS accessions under the current system (assuming a constant 1.79 million end strength) are projected to decline from about 350,000 in 1980 to around 335,000 in 1995. (This is because the current inventory contains a "hump" in the years 18-20; after these personnel retire, the post-20 losses will decline. Annual accessions will also fall.)

If members preferring the new system switch immediately (thereby incurring four years of obligated service) there would be a 12½ percent decline in enlisted accessions in the first transition year. Throughout most of the next decade, accessions would remain below that of the current system, finally leveling out slightly below (about 2 percent).

Officer accessions have been projected under the same transition assumption; namely, that all those who prefer the new system switch immediately. During the first four years, accessions fall by roughly one-fourth. In the fifth year of transition, there is a large increase in requirements when the first 10-year loss point is reached. If decisions to switch are made over several years, then the initial five years accession patterns would be more uniform—about 10 percent to 15 percent below today's requirement.

Increased Management Flexibility. The current retirement system has a strong influence on the decisions of both servicemembers and personnel managers. For most categories, the current system provides a "lock-in" insuring that career turnover will be low up to the 20 year point. This "lock-in" allows the military personnel manager to demand—and expect—compliance from members to take on undesirable duty or station assignments. But, it also constrains the manager from adjusting a large portion of the career force to meet changing conditions. And for a few members, who would otherwise choose to leave active duty prior to 20 years, the present retirement system would probably promote lower morale and a decreased commitment.



DoD Budget Authority for the Military Retirement Fund

Year	Retirement Accrual for Active Force: Current System[a]	Retirement Accrual for Active Force: Administration Proposal[b]	Change	Additional Appropriation to Liquidate Unfunded Liability[c]
1981	$7.3	$7.1	− .2	$ 9.8
1982	7.4	6.9	− .5	10.2
1984	7.6	6.6	−1.0	10.4
1986	7.9	6.4	−1.5	10.6
1988	8.1	6.3	−1.8	10.6
1990	8.3	6.4	−1.9	10.4
1992	8.5	6.6	−1.9	10.2
1994	8.9	6.9	−2.0	10.2
1996	9.1	7.0	−2.1	9.6
1998	9.4	7.3	−2.1	9.1
2000	9.7	7.5	−2.2	8.4

Note: Estimates are in FY 79 billions of dollars and assume annual wage growth of 1.5%, 4% annual inflation and 2.5% real discount rate.

[a]Estimate assumes the retirement accrual equals 37% of basic pay.

[b]Estimate assumes the retirement accrual equals 28.5% of basic pay.

[c]The unfunded liability includes retirement outlays for those who retired prior to fiscal year 1979. Estimates include survivor costs equal to 1.6% of total outlays.

TABLE 6

The new proposal permits a much wider range of choices for the personnel manager. Like today, the decision point at the end of an initial obligation can still be used as a control gate into the career force. Up through 10 years, it will be desirable to keep most of those eligible to reenlist; it is during this period that DoD receives the major return on its training investment. After 10 years, the manager can use involuntary separations to trim the force. Or he can increase promotions to encourage higher retention in skills where shortages occur.

Members who complete 15 years will have a major incentive to complete 20 years and become eligible for immediate annuities. Thus, the personnel manager will still be provided with a pool of supervisory talent, although smaller than under the current system. Should the pool fall short of requirements in a particular skill, other compensation policies would have to be used (special pays or continuation bonuses) to encourage careers of 25 to 30 years. If this pool becomes too large in a particular skill, high year of tenure policies can separate members after 20.

COST OF THE PROPOSAL

Military retirement costs are now funded on a pay-as-you-go basis. This means the Defense budget does not reflect the accruing retirement liabilities of today's active-duty force. As a result, there is little incentive to consider the retirement costs resulting from decisions affecting today's manpower.

The Department of Defense has submitted a separate legislative proposal to create an accrual accounting system for military retirement. This proposal would cause the DoD budget to reflect the total funds, set aside in an interest bearing account, to provide future retirement benefits for those on active duty today.

Table 6 compares the accrual cost of the current system and the Administration's proposal over the next 20 years. If the plan is adopted, the DoD budget authority would decrease immediately by $.2 billion in fiscal 1981. The unfunded liability in today's system is also shown in Table 6.

Accrual costs usually are calculated as a percentage of basic pay which must be set aside to fund the retirement system. The accrual percentage for the current system would be 37 percent; the Administration's proposal is estimated to require a contribution of 28.5 percent of basic pay.

FEDERAL OUTLAYS

Table 7 presents the changes in Federal outlays for military retirement resulting from enactment of the new proposal. An immediate increase in outlays would result from early withdrawals during transition to the new retirement system. Early withdrawal payments could add up to $550 million each year from 1981 to 1984, depending on the speed with which current members switch to the new system.

Significant savings in retired pay would not occur until 2000 and beyond. That's when about 65 percent of the career force falls under the new plan. Net savings in total outlays from the new retirement system do not occur for approximately 20 years. Up to the year 2000, the savings from reduced annuities (payable after 20 years of service) are more than offset by early withdrawal payments (payable after 10 years). Finally, when all military retirees come under the new plan, the savings in retirement costs are estimated to fall 26 percent below current system costs.

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Changes in Federal Outlays
Military Retirement
($ FY 79 Millions)

Fiscal Year	Changes in Retirement and Separation Pay	Early Withdrawal Outlays	Net Change in Retirement Outlays
1981	$ 5	$ 587	$ 592
1982	10	596	606
1983	10	605	615
1984	−15	614	599
1985	−35	623	588
1990	−425	800	375
2000	−1400	1400	0
2010	−2415	1600	−815
2020	−4450	1900	−2550
2030	−6200	2200	−4000
2040	−7700	2600	−5100
2050	−9100	3000	−6100
2060	−10900	3500	−7400
2070	−13100	4100	−9000

Estimates assume 1.5% real wage growth and 4% inflation in prices each year. Totals have been discounted to remove the effect of price increases. The costs of the survivor benefits program are not included.

TABLE 7

COVER: Illustrations by Paul Salmon

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